

AUDIT REPORT

TOWN OF OKAY, OKLAHOMA

JUNE 30, 2014

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TOWN OF OKAY, OKLAHOMA
JUNE 30, 2014

TABLE OF CONTENTS

	<u>PAGE</u>
FINANCIAL SECTION:	
INDEPENDENT AUDITOR'S REPORT	4-6
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
EXHIBIT A STATEMENT OF NET POSITION - MODIFIED CASH BASIS	7
EXHIBIT B STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS	8
Fund Financial Statements:	
EXHIBIT C BALANCE SHEET - GOVERNMENTAL FUNDS MODIFIED CASH BASIS	9
EXHIBIT D STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS	10-11
EXHIBIT E STATEMENT OF NET POSITION - PROPRIETARY FUND - MODIFIED CASH BASIS	12
EXHIBIT F STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND - MODIFIED CASH BASIS	13
EXHIBIT G STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS	14
NOTES TO THE FINANCIAL STATEMENTS	15-30

TOWN OF OKAY, OKLAHOMA
JUNE 30, 2014

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	31-32
SCHEDULE OF FINDINGS	33-34

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INDEPENDENT AUDITOR'S REPORT

To the Town Council
Town of Okay, Oklahoma

Report on the Financial Statements

We have audited the accompanying modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Town of Okay, Oklahoma, as of and for the fiscal year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1. This includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting

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policies used, and the reasonableness of significant accounting estimates made, by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Qualified Opinion

The modified cash basis of accounting requires that items, having substantial support in U.S. generally accepted accounting principles, such as capitalizing assets at historical cost and recording depreciation, be recorded in the financial statements. The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases and the related depreciation. Documentation supporting historical cost and depreciation was not readily available for our review. The amount by which this departure would affect the assets, net position, and expenses of the Governmental & Business-Type Activities is not readily determinable.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraphs, the financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of the governmental activities, the business-type activities, and the aggregate remaining fund information of the Town of Okay, Oklahoma, as of June 30, 2014, and the respective changes in modified cash basis financial position and, where applicable, cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Other Matters

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated July 23, 2015, on our consideration of the Town of Okay's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in compliance with *Government Auditing Standards* in considering Town of Okay's internal control over financial reporting and compliance.

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Basis of Accounting

We draw attention to Note 1 of the financial statements that describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

July 23, 2015

TOWN OF OKAY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
JUNE 30, 2014

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>2014 Total</u>
<u>ASSETS</u>			
<u>Current Assets:</u>			
Cash and cash equivalents	\$ 252,733	\$ 30,317	\$ 283,050
Due from other funds	-	-	-
Accounts Receivable	-	-	-
Total Current Assets	252,733	30,317	283,050
<u>Restricted Assets:</u>			
Cash - Customer Deposits	-	22,581	22,581
Cash - Debt Reserves	-	24,083	24,083
Total Restricted Assets	-	46,664	46,664
<u>Capital Assets:</u>			
Land	13,000	-	13,000
Other Capital Assets	754,019	606,080	1,360,099
Less: Accumulated Depreciation	(342,781)	(415,835)	(758,616)
Total Capital Assets	424,238	190,245	614,483
TOTAL ASSETS	676,971	267,226	944,196
<u>LIABILITIES</u>			
<u>Current Liabilities:</u>			
Due to other funds	-	-	-
Current Portion of Long-Term Debt	-	15,400	15,400
Total Current Liabilities	-	15,400	15,400
<u>Long-Term Liabilities:</u>			
Due to Depositors	-	13,435	13,435
Note Payable - RD	-	96,000	96,000
Notes Payable - First United Bank	-	-	-
Less: Current Portion of Long-Term Debt	-	(15,400)	(15,400)
Total Long-Term Liabilities	-	94,035	94,035
TOTAL LIABILITIES	-	109,435	109,435
<u>NET POSITION</u>			
Net investment in capital assets	424,238	94,245	518,483
Restricted for:			
Debt Service	-	46,664	46,664
Other Purposes	-	-	-
Unrestricted	252,733	16,882	269,615
TOTAL NET POSITION	\$ 676,971	\$ 157,791	\$ 834,762

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF OKAY, OKLAHOMA
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities:					
General Government	\$ 92,392	\$ -	\$ 18,939	\$ -	\$ (73,453)
Public Safety	124,333	40,004	11,501	-	(72,828)
Streets & Highways	13,394	-	-	-	(13,394)
Total Governmental Activities	<u>230,120</u>	<u>40,004</u>	<u>30,441</u>	<u>-</u>	<u>(159,675)</u>
Business-type activities:					
Water, Sewer & Sanitation	246,300	218,036	-	-	(28,264)
Total Business-type Activities	<u>246,300</u>	<u>218,036</u>	<u>-</u>	<u>-</u>	<u>(28,264)</u>
Total	<u>\$ 476,420</u>	<u>\$ 258,040</u>	<u>\$ 30,441</u>	<u>\$ -</u>	<u>\$ (187,939)</u>

Changes in Net Position:

	Governmental Activities	Business-Type Activities	Total
Net (expense)/revenue	\$ (159,675)	\$ (28,264)	\$ (187,939)
General revenues:			
Taxes:			
Sales & Use Tax	132,854	-	132,854
Tobacco Tax	1,523	-	1,523
Franchise Tax	17,283	-	17,283
Intergovernmental:			
Alcoholic Beverage Tax	5,453	-	5,453
Motor Vehicle Taxes	4,812	-	4,812
Gasoline Taxes	1,141	-	1,141
Licenses & Permits	295	-	295
Investment Income	401	39	439
Miscellaneous	21,587	-	21,587
Transfers - Internal Activity	-	-	-
Total general revenues & transfers	<u>185,348</u>	<u>39</u>	<u>185,387</u>
Changes in net position	25,673	(28,225)	(2,552)
Net position - beginning	651,298	186,015	837,313
Net position - prior year adjustment	-	0	0
Net position - ending	<u>\$ 676,971</u>	<u>\$ 157,791</u>	<u>\$ 834,762</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF OKAY, OKLAHOMA
BALANCE SHEET - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
JUNE 30, 2014**

	General Fund	Municipal Court Fund	Volunteer Fire Dept Fund	Total Governmental Funds
<u>ASSETS</u>				
Cash	\$ 81,138	\$ 90,827	\$ 80,769	\$ 252,733
Due from other funds	-	-	-	-
Accounts Receivable	-	-	-	-
TOTAL ASSETS	<u>\$ 81,138</u>	<u>\$ 90,827</u>	<u>\$ 80,769</u>	<u>\$ 252,733</u>
<u>LIABILITIES & FUND EQUITY</u>				
LIABILITIES:				
Due to other funds	\$ -	\$ -	\$ -	\$ -
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES:				
Nonspendable	-	-	-	-
Restricted	-	-	-	-
Committed	-	-	-	-
Assigned	-	90,827	80,769	171,595
Unassigned	81,138	-	-	81,138
TOTAL FUND BALANCES	<u>81,138</u>	<u>90,827</u>	<u>80,769</u>	<u>252,733</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 81,138</u>	<u>\$ 90,827</u>	<u>\$ 80,769</u>	

Reconciliation to Statement of Net Position:

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities of \$767,019, net of accumulated depreciation of \$342,781, are not financial resources and, therefore, are not reported in the funds.	424,238
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Some liabilities, including capital debt obligations payable, are not due and payable in the current period and therefore are not reported in the funds.	-
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Net Position of Governmental Activities	<u>\$ 676,971</u>
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TOWN OF OKAY, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	Municipal Court Fund	Volunteer Fire Dept Fund	Total Governmental Funds
<u>REVENUES:</u>				
Taxes:				
Sales Tax	\$ 97,201	\$ -	\$ 32,400	\$ 129,601
Use Tax	3,253	-	-	3,253
Franchise Tax	17,283	-	-	17,283
Tobacco Tax	1,523	-	-	1,523
Alcoholic Beverage Tax	5,453	-	-	5,453
Motor Vehicle Tax	4,812	-	-	4,812
Gasoline Taxes	1,141	-	-	1,141
Fines & Forfeitures	-	34,104	-	34,104
Licenses & Permits	295	-	-	295
Fire dues & runs	-	-	5,900	5,900
Grant Revenue	18,939	-	11,501	30,441
Interest Income	108	169	124	401
Miscellaneous Income	21,587	-	-	21,587
TOTAL REVENUES	171,595	34,273	49,925	255,793
<u>EXPENDITURES:</u>				
General Government	81,369	-	-	81,369
Public Safety:				
Police	82,698	-	-	82,698
Municipal Court	-	6,966	-	6,966
Fire	-	-	34,669	34,669
Street & Alley	8,502	-	-	8,502
TOTAL EXPENDITURES	172,570	6,966	34,669	214,205
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(975)	27,307	15,256	41,588
<u>OTHER FINANCING SOURCES (USES):</u>				
Operating Transfers In	18,492	-	-	18,492
Operating Transfers Out	-	(18,492)	-	(18,492)
Capital Debt Proceeds	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	18,492	(18,492)	-	-
NET CHANGES IN FUND BALANCES	17,517	8,815	15,256	41,588
FUND BALANCE - BEGINNING OF YEAR	63,621	82,012	65,512	211,145
FUND BALANCE - PRIOR YEAR ADJUSTMENT	-	-	-	-
FUND BALANCE - END OF YEAR	\$ 81,138	\$ 90,827	\$ 80,769	252,733

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF OKAY, OKLAHOMA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - MODIFIED CASH BASIS
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

Reconciliation to Statement of Activities:

Net change in fund balances - total governmental funds	\$	41,588
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Amounts reported for governmental activities in the Statement of Activities are different because:

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position:

Capital debt obligation principal payments		-
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Issuance of new capital debt obligations is recorded as capital debt proceeds in the governmental funds, but the proceeds create long-term liabilities in the Statement of Net Position:

Capital Debt Proceeds		-
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Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

Capital asset purchases capitalized		-
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Depreciation expense		(15,915)
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Change in Net Position of Governmental Activities	\$	<u>25,673</u>
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See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF OKAY, OKLAHOMA
STATEMENT OF NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
JUNE 30, 2014**

	Okay Public Works Authority Enterprise Fund June 30, 2014	Memo Only June 30, 2013
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents	\$ 30,317	\$ 59,721
Restricted Cash and cash equivalents	22,581	22,090
Accounts Receivable	-	-
	<hr/>	<hr/>
Total Current Assets	52,898	81,811
	<hr/>	<hr/>
Noncurrent Assets:		
Restricted Cash and cash equivalents	24,083	24,728
Capital assets, net of accumulated depreciation	190,245	202,785
	<hr/>	<hr/>
Total Noncurrent Assets	214,327	227,513
	<hr/>	<hr/>
TOTAL ASSETS	\$ 267,226	\$ 309,324
	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES & NET POSITION</u>		
Current Liabilities:		
Payroll Taxes Payable	\$ -	\$ -
Current Portion of Long-Term Debt	15,400	14,200
	<hr/>	<hr/>
Total Current Liabilities	15,400	14,200
	<hr/>	<hr/>
Noncurrent Liabilities:		
Due to Depositors	13,435	13,109
Notes Payable - Long-Term	96,000	110,200
Less: Current Portion of Long-Term Debt	(15,400)	(14,200)
	<hr/>	<hr/>
Total Noncurrent Liabilities	94,035	109,109
	<hr/>	<hr/>
TOTAL LIABILITIES	109,435	123,309
	<hr/>	<hr/>
NET POSITION:		
Net investment in capital assets	94,245	92,585
Restricted for debt service	46,664	46,818
Unrestricted	16,882	46,612
	<hr/>	<hr/>
TOTAL NET POSITION	157,791	186,015
	<hr/>	<hr/>
TOTAL LIABILITIES & NET POSITION	\$ 267,226	\$ 309,324
	<hr/> <hr/>	<hr/> <hr/>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF OKAY, OKLAHOMA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Okay Public Works Authority Enterprise Fund June 30, 2014	Memo Only June 30, 2013
<u>OPERATING REVENUES:</u>		
Charges for services:		
Water	\$ 122,780	\$ 120,826
Sewer	40,066	40,579
Sanitation	49,047	49,363
Grant Income	-	-
Other Revenue	6,144	8,409
TOTAL OPERATING REVENUES	218,036	219,178
<u>OPERATING EXPENSES:</u>		
Salaries & Related Expenses	58,510	59,911
Repairs & Maintenance	7,714	1,097
Materials & Supplies	4,379	10,030
Travel and fuel costs	4,140	4,175
Utilities	9,649	10,795
Postage	1,514	1,549
Licenses and permits	6,500	4,591
Contract Labor	14,916	8,457
Insurance	9,863	9,785
Payroll taxes	4,077	3,222
Legal and professional fees	24,597	28,436
Trash collection fees	34,490	37,956
Water purchases	47,359	38,785
Miscellaneous	4,428	3,380
Grant expenses	-	-
Depreciation	12,540	13,596
TOTAL OPERATING EXPENSES	244,675	235,766
NET OPERATING INCOME (LOSS)	(26,638)	(16,588)
NON-OPERATING REVENUES (EXPENSES)		
Interest Income	39	191
Interest Expense	(1,625)	(1,572)
TOTAL NON-OPERATING REVENUES (EXPENSES)	(1,587)	(1,382)
NET INCOME (LOSS) BEFORE CONTRIBUTIONS & TRANSFERS	(28,225)	(17,970)
Capital Contributions	-	-
Transfers in	-	-
Transfers out	-	-
CHANGE IN NET POSITION	(28,225)	(17,970)
TOTAL NET POSITION - BEGINNING	186,015	203,798
TOTAL NET POSITION - PRIOR YEAR ADJUSTMENT	0	187
TOTAL NET POSITION - ENDING	\$ 157,791	\$ 186,015

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

**TOWN OF OKAY, OKLAHOMA
STATEMENT OF CASH FLOWS - MODIFIED CASH BASIS
PROPRIETARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

	<u>June 30, 2014</u>	<u>Memo Only June 30, 2013</u>
<u>Cash Flows from Operating Activities:</u>		
Cash Receipts from Customers	\$ 218,036	\$ 219,178
Receipts from Others	-	-
Payments to Suppliers & Laborers for Goods & Services	(232,135)	(222,170)
Customer Deposits Received, Less Refunded	327	(12,714)
Net Cash Provided (Used) by Operating Activities	<u>(13,772)</u>	<u>(15,706)</u>
<u>Cash Flows from Non-Capital Financing Activities:</u>		
Transfers to other funds	-	-
Transfers from other funds	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>-</u>	<u>-</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Additions to Capital Assets	-	-
Loan Proceeds received	-	-
Principal paid on Notes Payable	(14,200)	(13,150)
Interest paid	(1,625)	(1,572)
Net Cash Provided (Used) by Capital & Related Financing Activities	<u>(15,825)</u>	<u>(14,722)</u>
<u>Cash Flows from Investing Activities:</u>		
(Increase) Decrease in Restricted Cash	155	11,002
Interest Income	39	191
Net Cash Provided (Used) by Investing Activities	<u>193</u>	<u>11,193</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(29,404)	(19,235)
Cash & Cash Equivalents, Beginning of Year	59,721	78,769
Cash & Cash Equivalents, Prior Year Adjustment	0	187
Cash & Cash Equivalents, End of Year	<u>\$ 30,317</u>	<u>\$ 59,721</u>
<u>Reconciliation of operating income (loss) to net cash provided operating activities:</u>		
Operating Income (Loss)	\$ (26,638)	\$ (16,588)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities		
Depreciation	12,540	13,596
(Increase)Decrease in Accounts Receivable	-	-
Increase(Decrease) in Due to Depositors	327	(12,714)
Increase(Decrease) in Payroll Taxes Payable	-	-
Net Cash Provided (Used) by Operating Activities	<u>\$ (13,772)</u>	<u>\$ (15,706)</u>

See Accountant's Audit Report & Notes Which Accompany These Financial Statements

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

As discussed further in Note 1.C., these financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) established by the Governmental Accounting Standards Board (GASB). These modified cash-basis financial statements generally meet the presentation and disclosure requirements applicable to GAAP, in substance, but are limited to the elements presented in the financial statements and the constraints of the measurement and recognition criteria of the modified cash basis of accounting.

A. Reporting Entity

The Town's financial reporting entity is comprised of the following:

Primary Government: Town of Okay
Blended Component Units: Okay Public Works Authority (OPWA)

PRIMARY GOVERNMENT

The Town of Okay, Oklahoma was organized under the statutes of the State of Oklahoma. The Town operates under a council form of government and is governed by a five member board of trustees. The trustees elect the mayor from their own body. The Town provides the following services: general government, public safety (fire and police), streets, public works (water, sewer and trash), judicial, public improvements, and planning and zoning for the geographical area organized as the Town of Okay, Oklahoma.

BLENDED COMPONENT UNITS

A blended component unit is a separate legal entity for which the elected officials of the primary government are financially accountable and that meets the blended component unit criteria. A blended component unit meets at least one of the following criteria: (a) the blended component unit's governing body is the same or substantially the same as the Town Council, and there is a financial benefit or burden relationship with the Town, or Town management has operational responsibility for the component unit; (b) the component unit provides services entirely or almost entirely to the Town; or (c) the component unit's debt is expected to be repaid entirely or almost entirely with resources of the Town. The blended component unit's funds are blended

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

into those of the Town by appropriate fund type to constitute the primary government presentation. Based on the foregoing criteria, the financial statements of the following component units are blended into the accompanying financial statements: Okay Public Works Authority. The Town board of trustees, and PWA board of directors are the same.

B. Basis of Presentation

Government-Wide Financial Statements

The Statement of Net Position and Statement of Activities display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements

The accounts of the Town are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses as appropriate. Government resources are allocated to and for individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report as follows:

Governmental Fund Types

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for all proceeds of specific revenue sources that are restricted, either legally or by board designation, to expenditures for specified purposes.

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Capital Projects Fund - The Capital Projects Fund is used to account for resources restricted for the acquisition or construction of specific capital projects or items.

Proprietary Fund Type

Enterprise Fund - Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises, where the costs (expenses including depreciation) of providing goods or services to the general public on a continuing basis are financed through user charges. The Okay Public Utilities Authority is reported as an enterprise fund.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe what transactions or events are recorded within the various financial statements. Basis of accounting refers to when and how transactions or events are recorded, regardless of the measurement focus applied.

Measurement Focus

In the government-wide State of Net Position and Statement of Activities, both governmental and business-like activities are presented using the economic resources measurement focus, within the limitations of the modified cash basis of accounting, subsequently defined in item (b).

In the fund financial statements, the current financial resources measurement focus or the economic resources measurement focus, as applied to the modified cash basis of accounting, is used as appropriate:

- a. All governmental funds utilize a current financial resources measurement focus within the limitations of the modified cash basis of accounting. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period.
- b. The proprietary fund utilizes an economic resources measurement focus within the limitations of the modified cash basis of accounting. The accounting objectives of this measurement focus are the determinations of operating income,

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

changes in net position (or cost recovery), net financial position, and cash flows. All assets, deferred outflows, liabilities, and deferred inflows (whether current or noncurrent or financial or nonfinancial) associated with their activities are generally reported within the limitations of the modified cash basis of accounting.

Basis of Accounting

The financial statements are presented on a modified cash basis of accounting, which is a basis of accounting other than GAAP as established by GASB. This basis of accounting involves modifications to the cash basis of accounting to report in the statements of net position cash transactions or events that provide a benefit or result in an obligation that covers a period greater than the period in which the cash transaction or event occurred. Such reported balances include investments, capital assets and related depreciation, and short-term and long-term liabilities arising from cash transactions or events.

This modified cash basis of accounting differs from GAAP primarily because certain assets and their related revenues (such as accounts receivable and revenue billed or provided services not yet collected and other accrued revenue and receivables) and certain liabilities and their related expenses (such as accounts payable and expenses for goods or services received but not yet paid and other accrued expenses and liabilities) are not recorded in these financial statements. In addition, other economic assets, deferred outflows, liabilities, and deferred inflows that do not arise from a cash transaction or event are not reported, and the measurement of reported assets and liabilities does not involve adjustment to fair value.

If the City utilized the basis of accounting recognized as generally accepted in the United States, the fund financial statements for governmental funds would use the modified accrual basis of accounting, and the fund financial statements for proprietary fund types would use the accrual basis of accounting. All government-wide financial statements would be presented on the accrual basis of accounting.

D. Cash & Cash Equivalents

Cash and cash equivalents for cash flow presentation purposes include the entity's petty cash, cash in bank, restricted assets, and certificates of deposits with a maturity date of three months or less.

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

E. Capital Assets

Capital assets utilized by the proprietary funds are reported in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are recorded at their historical cost; these assets are depreciated over the estimated useful life of the related asset.

Estimated useful lives are as follows:

Buildings	40 years
Improvements, other than buildings	10 years
Machinery, furniture and equipment	5-15 years
Utility property and improvements	40 years

Capitalization Policy

Purchases of capital items in excess of \$1,000.00 that increase the capacity or operation efficiency or extend the useful life of any asset are capitalized. Repairs and maintenance are expensed as incurred.

The Town has not maintained accurate capital asset records to support the historical cost of past capital asset purchases. Accounting principles generally accepted in the United States of America require that capital assets be recorded at historical cost net of accumulated depreciation.

F. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation time. Full-time and part-time regular employees who have been employed continuously for at least 12 months are granted vacation benefits in varying amounts to specified maximums depending on tenure with the Town. The Town has not accrued compensated absences because the amount, if any, would not be material to the financial statements.

G. Equity Classification

Net Position is classified and displayed in three components:

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

1. Net investment in capital assets – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets and adjusted for any deferred inflows and outflows of resources attributable to capital assets and related debt.
2. Restricted – Consists of restricted assets reduced by liabilities and deferred inflows or resources related to those assets, with restriction constraints placed on the use either by (a) external groups such as creditors, grantors, contributors, or laws and regulations of other governments; or (b) law through constitutional provisions or enabling legislation.
3. Unrestricted – Net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

It is the Town's policy to first use restricted net resources prior to the use of unrestricted net resources when an expense is incurred for purposes for which both restricted and unrestricted net resources are available.

H. Revenues, Expenditures & Expenses

Property Tax

For the year ended June 30, 2014, the Town levied no property tax. Under State law, municipalities are limited in their ability to levy a property tax. Such tax may only be levied to repay principal and interest on general obligation bonded debt approved by voters and court-assessed judgments.

Expenditures/Expenses

For purposes of the combined operating statements, expenditures/expenses are classified as follows:

Governmental Fund Types - By Character: Current (further
classified by activity)
Capital Outlay
Proprietary Fund Types - By Operating and Non-Operating

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Governmental fund types report expenditures of financial resources. Proprietary fund types normally report expenses relating to use of economic resources.

I. Interfund Transfers

During the course of normal operations, the Town has transactions between funds including expenditures and transfers of resources to provide services, purchase assets and service debt. Transactions which are normal and recurring between funds are recorded as operating transfers. Transfers of equity between funds (residual equity transfers) are recorded as a change in fund balance.

J. Fund Balance

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the Town classifies governmental fund balances as follows:

- Non-spendable - Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.
- Restricted - Includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation.
- Committed - Includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision making authority and does not lapse at year-end.
- Assigned - Includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. Fund Balance may be assigned by the Board.
- Unassigned - Includes positive fund balance within the General Fund which has not been classified within the above mentioned categories and negative fund balances in other governmental funds.

The Town uses restricted/committed amounts to be spent first when both restricted and unrestricted fund balance is available unless there are legal documents/contracts that prohibit doing this, such as a grant agreement requiring dollar for dollar spending. Additionally, the Government would first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

The Government does not have a formal minimum fund balance policy.

The purposes of each major special revenue fund and revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Municipal Court Fund	Fine & Forfeitures
Volunteer Fire Dept Fund	Fire dues & runs Operational grants
OHFA Home Fund	Grant Income
Capital Projects Fund	Grant Income

K. Memorandum Only

The "Memorandum Only" captions above the total columns mean that totals are presented for overview information purposes only.

NOTE 2 - BUDGETARY ACCOUNTING AND CONTROL

The Town prepares its annual budget under the provisions of the Municipal Budget Act (the "Budget Act"). In accordance with those provisions, the following process is used to adopt the annual budget:

- a. Prior to June 1, the Mayor submits to the Town Trustees a proposed operating budget for the fiscal year commencing the following July 1.
- b. Public hearings are conducted to obtain citizen comments. At least one public hearing must be held no later than 15 days prior to July 1.
- c. Subsequent to the public hearings but no later than seven days prior to July 1, the budget is adopted by resolution of the Town Trustees.
- d. The adopted budget is filed with the Office of the State Auditor and Inspector.

The legal level of control at which expenditures may not legally exceed appropriations is the object category level by department within a fund. The Budget Act recognizes the following object categories as the minimum legal level of control by department within a fund:

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

- Personal Services
- Materials and Supplies
- Other Services and Charges
- Capital Outlay
- Debt Service
- Interfund Transfers

All transfers of appropriations between departments and supplemental appropriations require Town Trustee approval. The Mayor may transfer appropriations between object categories within a department without Town Trustees approval. Supplement appropriations must also be filed with the Office of the State Auditor and Inspector.

NOTE 3 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

As a local government unit, the Town is subject to various federal, state, and local laws and contractual regulations. In accordance with Government Auditing Standards, the auditor has issued a report on his consideration of the Town's internal control over financial reporting and tested its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in compliance with Government Auditing Standards and should be read in conjunction with this report in considering the results of the audit.

Deficit Fund Balance or Retained Earnings

As indicated in the financial statements, there are no fund balance or retained earnings deficits for the District for this fiscal year.

NOTE 4 - CASH & EQUIVALENTS AND RESTRICTED ASSETS

Custodial Credit Risk

At June 30, 2014, the Town held deposits of approximately \$329,714 at financial institutions. The Town's cash deposits, including interest-bearing certificates of deposit are covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by the Town or by its agent in the Town's name.

Investment Interest Rate Risk

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Investment Credit Risk

The Town has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers' acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

Restricted Assets

The OWRB Loan requires the Trustee Bank to establish and maintain a reserve fund to secure payment of debt service on the notes. Bank of Oklahoma (the Trustee Bank) has established this reserve fund which meets the loan agreement's minimum requirement. The summary of these funds held by the Trustee Bank at June 30, 2014 is as follows:

Debt Service Reserve Fund	\$22,728.39
Debt Service Fund	<u>\$ 1,354.26</u>
Total Trustee Fund	\$24,082.65

The customer meter deposit account is also considered restricted.

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 - CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

Governmental Funds

Capital asset activity for the Governmental Funds, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2014, was as follows:

	6/30/13			6/30/14
<u>Governmental Activities:</u>	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 13,000	\$ -	\$ -	\$ 13,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	13,000	-	-	13,000
Other capital assets:				
Buildings	368,937	-	-	368,937
Infrastructure	195,665	-	-	195,665
Vehicles	158,728	-	-	158,728
Machinery & equipment	30,689	-	-	30,689
Total other capital assets	754,019	-	-	754,019
Less accumulated depreciation for:				
Buildings	94,350	9,223	-	103,573
Infrastructure	46,699	4,892	-	51,591
Vehicles	155,128	1,800	-	156,928
Machinery & equipment	30,689	-	-	30,689
Total accumulated depreciation	326,866	15,915	-	342,781
Other capital assets, net	427,153	(15,915)	-	411,238
Governmental activities capital assets, net	\$ 440,153	\$ (15,915)	\$ -	\$ 424,238

Proprietary Fund

Capital asset activity for the Public Works Authority, resulting from the modified cash basis transactions, for the fiscal year ended June 30, 2014, was as follows:

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

	6/30/13 Balance	Additions	Deductions	6/30/14 Balance
<u>Business-Type Activities:</u>				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Other capital assets:				
Water system	364,320	-	-	364,320
Sewer system	222,659	-	-	222,659
Machinery & equipment	19,101	-	-	19,101
Total other capital assets	606,080	-	-	606,080
Less accumulated depreciation for:				
Water system	254,387	6,701	-	261,088
Sewer system	130,285	5,361	-	135,646
Machinery & equipment	18,623	478	-	19,101
Total accumulated depreciation	403,295	12,540	-	415,835
Other capital assets, net	202,785	(12,540)	-	190,245
Business-type activities capital assets, net	\$ 202,785	\$ (12,540)	\$ -	\$ 190,245

NOTE 6 - OUTSTANDING LONG-TERM DEBT

Government Fund Debt

The Town currently does not have any Government Fund Debt.

Changes in Government Fund Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
Notes Payable:				
Note Payable	\$ -	\$ -	\$ -	\$ -
Total Govt Fund Long-Term Debt	\$ -	\$ -	\$ -	\$ -

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

Debt Service Requirements to Maturity for Government Fund Long-Term Debt

Note Payable:

FYE June 30,	Principal	Interest	Total
2015	\$ -	\$ -	\$ -
2016	-	-	-
2017	-	-	-
2018	-	-	-
2019	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Okay Public Works Authority Debt

On July 14, 1992, the Okay Public Works Authority entered into a loan agreement with the State of Oklahoma Water Resources Board (OWRB). The original amount of the loan was \$250,000 with a 27.5 year term, maturing August 15, 2019. The note is payable in semi-annual (currently quarterly) installments of \$3,600 to \$11,000 with an initial interest rate of 3.592%. This note is secured by the gross income and revenue of the water, sewer and garbage facilities owned by the Town of Okay, but leased to Okay Public Works Authority.

Changes in PWA Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2014:

Notes Payable:	Balance at June 30, 2013	Additions	Deductions	Balance at June 30, 2014
Note Payable - OWRB	\$ 110,200.00	\$ -	\$ (14,200.00)	\$ 96,000.00
Total PWA Long-Term Debt	<u>\$ 110,200.00</u>	<u>\$ -</u>	<u>\$ (14,200.00)</u>	<u>\$ 96,000.00</u>

Debt Service Requirements to Maturity for OPWA Long-Term Debt

<u>OWRB:</u> FYE June 30,	Principal
2015	\$ 15,400.00
2016	16,600.00
2017	17,950.00
2018	19,400.00
2019	21,150.00
2020	5,500.00
	<u>\$ 96,000.00</u>

Principal only is shown because this loan has a variable interest rate.

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 7 - GOVERNMENTAL FUND BALANCES

Town of Okay
Disclosure of Fund Balances Reported on Balance Sheet
For Fiscal Year Ending June 30, 2014

	General Fund	Municipal Court Fund	Volunteer Fire Dept Fund	Total Governmental Funds
<u>FUND BALANCES:</u>				
Restricted for:				
Capital Improvements	\$ -	\$ -	\$ -	\$ -
Assigned to:				
Fire Department	-	-	80,769	80,769
Municipal Court	-	90,827	-	90,827
Unassigned	81,138	-	-	81,138
Total	<u>\$ 81,138</u>	<u>\$ 90,827</u>	<u>\$ 80,769</u>	<u>\$ 252,733</u>

NOTE 8 - VOLUNTEER FIREMEN PENSION

The Town participates in the Oklahoma Firefighters Pension and Retirement System (the Plan) on behalf of its volunteer firefighters. The Town contributes \$60/year for each volunteer firefighter as set by Oklahoma Statutes; voluntary firefighters do not contribute to the Plan. The Plan provides retirement, death, and disability benefits to plan members and beneficiaries. The Plan is an agent multiple-employer, or municipality, contributory defined benefit pension plan. The authority to amend and establish benefit provisions of the Plan rests with the Board of Trustees of the Plan. The Plan issues a publicly available financial report that includes financial statements and required supplementary information. That report as well as actuarial assumptions and funding information may be obtained by writing to the Oklahoma Firefighters Pension and Retirement System c/o Oklahoma State Firefighters Association, 4545 N. Lincoln Blvd., Oklahoma City, OK 73105-3414.

NOTE 9 - RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town purchases commercial insurance to reduce their risk of loss. .

NOTE 10 - COMMITMENTS & CONTINGENCIES

Litigation

The Okay Public Works Authority has been sued by Vicki Barnett in inverse condemnation. The commissioners have filed a report finding

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

damages in the amount of \$28,000.00. Both the Okay Public Works Authority and Vicki Barnett have filed demands for jury trial. If a jury finds that there was a taking, then a judgment could be in the range of \$28,000, but will also include attorney fees for Barnett as well as the judgment amount with interest from the date of taking. The Okay Public Works Authority is in the process of filing a Third Party Petition against the engineer who drew upon the project and the company that actually performed the work, which hopefully will create a source for funds to pay any judgment that may occur.

The same plaintiff, has filed a declaratory judgment action as well to establish that the subject mobile home park is outside the city limits of the Town of Okay. There is not possibility of a money judgment in this action. The action will not be litigated until the inverse condemnation action is completed.

Grant Programs

In the normal course of operations, the Town participates in various federal and state grant programs from year to year. Amounts received or receivable from grantor agencies are often subject to audit and adjustment by the grantor agency. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor agency cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

TOWN OF OKAY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 11 - OPERATING TRANSFERS

Interfund operating transfers for the year ended June 30, 2014, were as follows:

OPERATING TRANSFERS:	<u>TRANSFERS IN</u>	<u>TRANSFERS OUT</u>
GENERAL:		
Municipal Court Fund	\$ 18,492	\$ -
Volunteer Firefighters Fund	\$ -	\$ -
Okay Public Works Authority	\$ -	\$ -
Total General Fund	<u>\$ 18,492</u>	<u>\$ -</u>
SPECIAL REVENUE FUNDS:		
Municipal Court Fund:		
General Fund	\$ -	\$ 18,492
Volunteer Firefighters Fund:		
General Fund	\$ -	\$ -
Total Special Revenue Funds	<u>\$ -</u>	<u>\$ 18,492</u>
ENTERPRISE FUNDS		
Okay Public Works Authority		
General Fund	\$ -	\$ -
Total Enterprise Funds	<u>\$ -</u>	<u>\$ -</u>
	<u>\$ 18,492</u>	<u>\$ 18,492</u>

NOTE 12 - SUBSEQUENT EVENTS

The Town did not have any subsequent events through July 23, 2015, which is the date the financial statements were issued, for events requiring recording or disclosure in the financial statements for the year ending June 30, 2014.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Town Council
Town of Okay, Oklahoma

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and in accordance with Oklahoma Statutes, the modified cash basis financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Okay, Oklahoma, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles, which collectively comprise the Town of Okay, Oklahoma's basic financial statements, and have issued our report thereon dated July 23, 2015, which was qualified for the improper capital asset recordkeeping.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Okay's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Okay's internal control. Accordingly, we do not express an opinion on the effectiveness of Town of Okay's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material

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weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control described in the accompanying Schedule of Findings that we consider to be significant deficiencies. Those deficiencies are listed as Item 14-01, 14-02 and 14-03.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Okay's financial statements are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Town of Okay's Response to Findings

Town of Okay's response to the findings identified in our audit is described in the accompanying Schedule of Findings. Town of Okay's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

This report is intended solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kershaw CPA & Associates, P.C.

Kershaw CPA & Associates, PC

July 23, 2015

TOWN OF OKAY, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2014

SIGNIFICANT DEFICIENCIES OF INTERNAL CONTROL

Item 14-01: Segregation of Duties

Criteria: A good system of internal control requires a proper segregation of duties to prevent one person from being in a position to authorize, execute, and record the same transaction. The segregation of duties is important to have adequate control over financial assets.

Condition: Due to the size of the Town's major areas of internal control, that would be prevalent in a larger Town, such segregation of duties is not available for this size operation. Duties are concentrated in the hands of a few individuals, who are responsible for all phases of the accounting functions. Because of this lack of division of responsibility, internal control is determined to be weak, and in some instances, non-existent.

Cause/Effect: Due to the limited number of personnel, a breach of internal controls could occur and not be detected in the normal course of operations.

Recommendation: The Board should continue to be actively involved in the operations of the organization.

Response: The Board continues to be actively involved in the operations of the organization.

Item 14-02: Meter Deposits

Criteria: It is the responsibility of the Authority to properly report and account for the financial information.

Condition: The Meter Deposit Liability has not been accurately posted with all transactions during the year. The liability recorded in the financial statements does not match the corresponding bank account.

Cause/Effect: Customers could potentially not receive proper reimbursement on their deposit and the organization's statement of net assets could be incorrect with respect to the deposit account.

TOWN OF OKAY, OKLAHOMA
SCHEDULE OF FINDINGS
JUNE 30, 2014

Recommendation: All deposit refunds and final bills should be accurately posted to reconcile the account at yearend. A Meter Deposit Ledger should be maintained so that an accurate liability amount can be reported.

Response: The Authority made a large adjustment to the meter deposit account during the year to try and correct the balances.

Item 14-03: Fund Transfers

Criteria: It is the responsibility of the Town to properly report and account for the financial information.

Condition: During the current year several payroll transfers were made in duplicate.

Cause/Effect: The general ledger balances of the bank accounts varied from the bank statements by these amounts.

Recommendation: All of the duplicate transactions should be reversed.

Response: The Town made adjustments in the next fiscal year to correct the transfers.